



**DEPARTMENT OF
HUMAN RESOURCE MANAGEMENT**

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2012 AND JUNE 30, 2013**

AUDIT SUMMARY

Our audit of the Department of Human Resource Management, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operations necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- due to the timing of the prior year report, corrective action has not been fully implemented related to findings from the prior year entitled "Document Allocation and Recovery Methodologies" and "Develop Methods to Track Costs"; however, significant progress has been made.

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AGENCY HIGHLIGHTS

The Department of Human Resource Management (Human Resource) administers the Commonwealth's Personnel Act, health insurance plans for state and local employees, and the workers' compensation program. Human Resource's responsibilities include providing expertise in the areas of compensation, equal employment compliance, health benefits, and human resources policy and training. Human Resource is also the Commonwealth's central source for information about the Commonwealth's employment work force and provides a listing of state employment opportunities.

The Office of Contracts and Finance (Contracts and Finance) does all accounting, finance, and procurement activities for Human Resource. Contracts and Finance also provides underwriting oversight for the Office of Health Benefits, which administers the health insurance and related benefits.

Administrative Financial Activity

Human Resource received total resources of approximately \$9.9 million in fiscal year 2012 and \$11.6 million in fiscal 2013 of which personnel expenses account for 76 and 78 percent of expenses each fiscal year, respectively. The majority of the remaining expenses each fiscal year are for contractual services and continuous charges such as rental and insurance payments.

The following tables summarize Human Resource's financial activity for fiscal years 2012 and 2013. The majority of the increases to the final budget in both fiscal years resulted from increases to offset Virginia Information Technologies Agency (VITA) rate changes, along with appropriations for the Time Attendance Leave system. Actual expenses in both fiscal years were less than the adjusted budget primarily due to special revenue estimated and actual collections being less than appropriated amounts.

Analysis of Budget to Actual Funding – Fiscal Year 2012

<u>Fund</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General	\$ 3,533,015	\$ 4,091,042	\$ 4,088,680
Special	5,536,267	5,527,566	4,309,543
Trust and Agency	1,353,822	1,353,822	765,885
CVC Program Fund	231,334	231,334	176,902
Training and Forms Recovery Fund	250,300	250,300	196,559
Mediation Training	-	400,000	400,000
Total	<u>\$10,904,738</u>	<u>\$11,854,064</u>	<u>\$ 9,937,569</u>

Source: Commonwealth Accounting and Reporting System

Analysis of Budget to Actual Funding – Fiscal Year 2013

<u>Fund</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General	\$ 3,509,587	\$ 5,029,678	\$ 5,029,678
Special	5,574,859	5,145,859	4,762,634
Trust and Agency	1,358,969	1,358,969	859,677
CVC Program Fund	234,196	234,196	198,114
Training and Forms Recovery Fund	250,300	250,300	238,140
Mediation Training	-	429,000	429,000
Employee Dispute Resolution Fund	-	305,302	178,960
Total	<u>\$10,927,911</u>	<u>\$12,753,304</u>	<u>\$ 11,696,203</u>

Source: Commonwealth Accounting and Reporting System

Health Insurance Fund

The Office of Health Benefits administers the comprehensive health benefits and long-term care programs for state employees, state retirees, and their dependents. It also provides health benefits and long-term care programs to local governments and school jurisdiction employees, dependents and retirees.

The Comprehensive Annual Financial Report of the Commonwealth presents the activity of the self-insured health benefits program in two funds administered by Human Resource. The annual report presents the Local Choice activity as an Enterprise Fund and the State Health Insurance activity as an Internal Service Fund.

Workers' Compensation Fund

The Office of Workers' Compensation (the Office) provides direction to state agencies on workers' compensation, workplace safety and loss control, and return to work programs. The Office also determines if the Commonwealth has adequate workers' compensation insurance protection, claims administration, training, and loss control services. The Workers' Compensation Fund provides all state employees with a covered injury sustained in the course and scope of employment with salary and wage protection, medical expenses, and other costs.

The Commonwealth operates a self-insured workers' compensation program administered by Human Resource. The Comprehensive Annual Financial Report of the Commonwealth shows the program as a component of the Risk Management Internal Service Fund. Entities participating in the workers' compensation program receive annual billings for premiums, which Human Resource tracks using an in-house database.

Human Resource has a contract with Managed Care Innovations (MCI) to manage cost containment and claims administration. MCI uses a subcontractor, Avizent Company, for third party claims administration. Human Resource contracts for an annual audit of the internal control procedures used by the Avizent Company when processing claims. The Office also contracts with Mercer Oliver Wyman to provide an annual actuarial analysis of the Workers' Compensation Fund. This analysis identifies funding needs and required reserves to meet short and long-term claim obligations.

The financial results of the program are part of the Commonwealth's Annual Financial Report.



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 8, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Human Resource Management** (Human Resource) for the years ended June 30, 2012, and June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of Human Resource's internal controls, test compliance with applicable laws, regulations, contracts and grant agreements and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Human Resource's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Appropriations
- Payroll and other disbursements
- Purchase card expenses
- Information System Security
- Recovery of cost of providing administrative services to other agencies and the Health Insurance Trust and Workers' Compensation Fund

We performed audit tests to determine whether the Human Resource's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Human Resource's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Human Resource properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Human Resource records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Human Resource has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter. However, we did not perform detailed audit work related to the findings from the prior year entitled "Document Allocation and Recovery Methodologies" and "Develop Methods to Track Costs." Due to the timing of the prior year report, Human Resource has not had the time to fully implement corrective action; however, has made significant progress. A subsequent audit will determine whether Human Resource has fully implemented corrective action with respect to these findings.

Exit Conference and Report Distribution

We discussed this report with management on September 4, 2013.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JGF:alh



COMMONWEALTH of VIRGINIA

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September 6, 2013

The Auditor of Public Accounts
P. O. Box 1295
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Dear Ms. Mavredes:

We are providing this letter in connection with your audit of the financial records and operations of the Department of Human Resource Management for the fiscal years ended June 30, 2012 and June 30, 2013. We appreciate the efforts of your staff in providing sound financial reviews for the Commonwealth. While we did not have any findings or recommendations, our efforts will continue to focus on effectiveness and efficiency. The input of Eris Jones and Josh Fox and was of great value, and we look forward to working with them in the future.

Sincere regards,

A handwritten signature in cursive script that reads "Sara".

Sara R. Wilson

Director, Department of Human Resource Management

DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

Sara Redding Wilson, Director

Dan Hinderliter, Director
Office of Contracts and Finance

George Gibbs, CFO
Office of Contracts and Finance